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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

April 7, 2003

The Honorable David M. Walker
Comptroller General
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

The Committee on Small Business and Entrepreneurship has had a longstanding interest in the compliance burden that the Federal tax system imposes on small businesses and the self-employed. In May 2000, The General Accounting Office (GAO) reported to this Committee on the initial steps that the Internal Revenue Service (IRS) was taking to improve its methodology for estimating taxpayer compliance burden. The GAO's report focused on the progress of the IRS' first project, which was to develop a model to estimate the burden on taxpayers who have only wage and investment income. The GAO noted that the capabilities and accuracy of the IRS' new model would depend on the quality of the underlying data and on the IRS' ability to estimate statistical relationships between tax reporting requirements and burden. The IRS has now completed its work on that first model and has expanded its scope to include self-employed taxpayers.

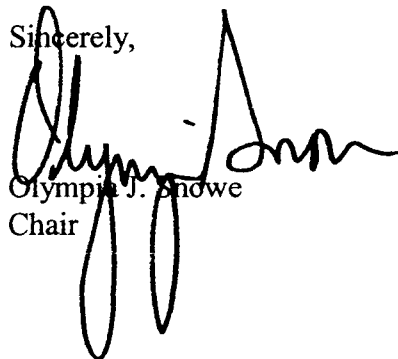
The IRS' new model is likely to be used extensively to inform policymakers and the IRS management of how proposals to change tax laws or reporting requirements will affect compliance burdens. The Committee would like to know the extent to which we (and other policymakers) can rely on estimates produced by the model. I understand that for some purposes the precision of the burden estimates may not be critical. In other cases, however, when increases or decreases in burden are being weighed against other costs or benefits of a proposal, it is important for decision makers to have some idea of the uncertainty surrounding the burden estimates.

In order to assist us in making appropriate use of the IRS' burden estimates, I request that the GAO evaluate the IRS' new burden-estimation model, in particular its application to self-employed taxpayers. Based on that evaluation, please determine a reasonable approach that the IRS can use to characterize the uncertainty surrounding the various estimates that the agency presents to Congress, or otherwise makes public, through the use of the new burden-estimation model in the future. In addition, I would appreciate your assessment as to whether estimates developed through the new model would be more accurate and an appropriate substitute for the estimated average times that the IRS currently provides with regard to recordkeeping, learning about the law or a form, preparing a form, and copying, assembling, and sending a form to the IRS.

The Honorable David M. Walker
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Thank you for your assistance with this request. If you have any questions or need additional information, please have your staff contact Mark Warren, Majority Staff Director for the Committee, at (202) 224-5175.

Sincerely,

A handwritten signature in black ink, appearing to read "Olympia J. Snowe". The signature is fluid and cursive, with a large initial "O" and a long, sweeping underline.

Olympia J. Snowe
Chair